FINANCIAL PERFORMANCE FOR THE MERGERS AND ACQUISITIONS OF LOCAL BANKS IN MALAYSIA

Mohd Hasimi Yaacob[1], Aina Adlynna Binti Zulkifli[2], Nur Elysa Shakira Bt Othman[3]
Facultyof Economic and Management
Universiti Kebangsaan Malaysia (UKM)
Email: [1]mhasimi@ukm.edu.my, [2]ainaadlynna@gmail.com, [3]elysaptsb@gmail.com

ABSTRACT

Mergers and acquisitions are said to have a positive impact and synergy in the company's performance. Indirectly it provides a popular growth among organizations to undertake the merger and acquisition activities. Thus, Bank Negara Malaysia's has made a directive in the year 2000 for the consolidation and restructuring of Malaysian local banks with the aim to reduce the risk of insolvency at that time. This research paper revisits the case in order to investigate whether that objective has been achieved in a longer performance perspective. The sample in this research is 8 local Malaysian banks in with a pre-merger period of 1 year and the post-merger period up to 10 years according to the year of merger activities start. The indicator profitability, liquidity, market value, risk and solvency ratio are tested. The finding shows that the financial performances for Malaysian banks are significant in relation to the profitability and market value. However, the results fail to indicate any significant improvement in bank's liquidity, risk and solvency indicator.

Keywords: Merger and Acquisition, Financial Performance, Malaysian Bank

INTRODUCTION

A merger is an agreement that unites two existing companies into anew company.On the other hand, an acquisition refers to a transaction in which a firm purchases another firm with the intention of increasing effectivityby using core competencies through establishing the procured firm as a subsidiary in its business portfolio.In year 2000, a merger order was implemented by the National Banks Malaysia (BNM) to consolidate and restructure the local banks in Malaysia (Table 1).The said order aimed to reduce the risk of smaller local bank insolvency and increase the capital and the strengths of local banks. Most banks in Malaysia have restricted lending policies after the financial crisis in Malaysia in 1997–1998 due to weak financial performance and the increase of non-performing loans.

Anchor Bank	Banking Institution in the Group	
	Subsidiaries	Targets
Alliance		Sabah Bank, International Bank Malaysia, Berhad, Bolton Finance, Sabah Finance, Bumiputra Merchant Bankers, Amanah Merchant Bankers
AmBank	Arab Malaysian Finance Berhad	MBF Finance Berhad
Bumiputra Commerce	Commerce Finance Berhad	Commerce International Merchant Bankers, Bank Bumiputra
EON Bank	EON Finance Berhad	Oriental Bank, City Finance, Perkasa Finance, Malaysia International Merchant Bankers
Hong Leong Bank	Hong Leong Finance Berhad	Wah Tat Bank, Credit Corporation Malaysia
Malayan Banking Group	Maybank Finance Berhad	PhileoAlied Bank, Pacific Bank, Sime Finance, Kewangan Bersatu, Aseambanker Malaysia
Perwira Affin Bank	Affin Finance Berhad, Perwira Affin Merchant Bankers	BSN Commercial Bank, BSN Finance, Asia Commercial Finance, BSN Merchant Bank
Public Bank	Public Finance Berhad	Hock Hua Bank, Advance Finance, Sime Merchant Bankers
RHB Bank	RHB Sakura Merchant Bankers Berhad	Sime Bank, Bank Utama, Delta Finance, Interfinance Berhad
Southern Bank		Ban Hin Lee Bank, Cempaka Finance, Perdana Finance, United Merchant Finance Perdana Merchant Bank.

Table 1: Merger of 10 banks approved by BNM.

Mergers and acquisitions (M&As) are the most popular and trusted strategies among large companies, such as multinational enterprises,to enhance the growth of organisational activities (Majid, 1995). After the global financial crisis, mergers and acquisitions rose significantly. A significant transformation in the business landscape has been brought about by companies that implement M&As not only for competitive advantage, but also to endure challenge in the industry (Tajali andShehzad, 2014). A merger is also defined as the invested assets of two different companies or their combined assets which will be run or controlled by one company (Weinberg and Blank, 1979;Gaughan, 2000).

M&Asare processes that create value, improve efficiency and enhance market power by improving resource allocation for affiliated companies (Altunbas and Marques, 2008). In addition, several countries that implement mergers and acquisitions, such as China, Brazil and India, have proven that M&As improved the performance of their business units (Zahid and Shah, 2011).Daniya, Onotu andAbdulrahaman (2016) also note that M&As in the financial system have significantly improved the financial performance of most banks in Nigeria.On the contrary, Farhan, Anneta and Shafique (2018) concludes that M&Asof

banking sector in Pakistan are unsuccessful. Furthermore, they note that developed countries are more successful and gain more advantages in growth, synergy, market share and increased efficiency in utilising resources in comparison with developing countries.

Thus, on the basis of the discussion above, this study would like to examinethe financial performance of Malaysian banks after they have undertaken the M&As activity.

LITERATURE REVIEW

Mergers and Acquisitions

Kalimeris (2010) proved that companies involved in M&As could increase their share prices by using foreign investments. This finding was also supported by Nima (2015),who claimed that M&As generally improve financial performance of return on asset (ROA) and return on equity (ROE) of commercial banks in Kenya.As discussed above, Daniya, Onotu and Abdulrahaman(2016) discovered that M&As in the financial system significantly improved the financial performance of most banks in Nigeria.

M&As are important as they lead to the fusion of corporate resources if it can generate competitive advantages. Additionally, this business activityallows for fast access of technology, products andcustomer,improved market positioning and a strongfinancial position. A consolidated company can also have a largeshare of the market, giving them a competitive advantage. According toStephen (2010), M&As also benefit companies who want to reposition themselves in the market.

Conversely, Farhan, Anneta and Shafique (2018) affirmed that mergers and acquisition in Pakistan are unsuccessful in terms of the banking sector performance. Relative to developing countries like Pakistan, developed countries are more successful and obtain more advantages in terms of growth, synergy, market share and increased efficiency in utilising the resources. Furthermore, Burhan andNiaz (2017) and Muhammad Ahmed andZahid (2014) found a decline in the financial performance of banksin Pakistan after merger activitiesin terms of profitability on ROA, ROE, net income on assets and non-interest income on total assets. However, the ratio of investment to total assets showed excellent improvement as synergies arising from the merger exert a beneficial impact on the banks' asset investment.

Mergers and Acquisitions in Malaysia

According to Bank Negara Malaysia (BNM) in 1999, a plan for mergers should be implemented in the banking sector because Malaysia has too many banks for a small economy and banks commonlysuffer from severe non-performing loans which may be partly due to inefficientmanagement. In addition, the increased pressure from the World Trade Organization (WTO) to open local financial markets to foreign banks also had increased the gravity for mergers. In this era of globalisation, international businesses have been pushing companies to seek competitive advantages around the world to meet different consumer demands.

According to Ahmad (2007), the merger activity in the banking industry in Malaysia has been largely implemented in the mid-2000 per the suggestion ofBNM. Public sector banks had driven consolidation processes among state-owned banks.Those are Maybank, Affin Bank, Alliance Bank, AmBank, Bumiputera Commerce, Eon Bank, Hong Leong Bank, Public Bank, RHB Bank and Southern Bank.

Subsequently, Mohd Zaini, Mohd Ridhuan andGee (2009) examined the cost-efficiency and profitability for mergers and acquisitions of banks in Malaysia.They confirmed a relatively positive effect in terms of efficiency in cost and profit management which showed moderate growth for somebanks during the review period from 1995 to 2005. This finding is also supported by Fauzias, Rasidah andMohamed (2006) who established that banks are likely to show an increase in overhead efficiency.

Ang et al. (2017) validatedthat the measurement of financial performance based on the financial ratio of some of the local banks. Their surveyed demonstrates the efficiency of banks financial performance after undertaking merger and acquisition activities as a result of the combinationof banking assets and services, business transactions, as well as technical competencies of the bank.

Conversely, Khonget al. (2015) studied the financial performance of local banks before and after M&As by using the review periods 1999 to 2000 (before the merger) and 2001 to 2010 (after the merger). They established thatthe financial performance of local banks in Malaysia after M&As did not show significant improvements in financial ratio. However, the researchers verifiedthat most banks had high scores on non-interest expense to total assets.

In addition, Rasidah, Fauzias, Soo-Wah andAisyah (2008) established that the effects of performance in M&As for banking institutions in Malaysia have not caused a productive increase in the bank. Their study covered 1998 to 2004 for a 3-year pre-assessment and 3-year assessment period after mergers and acquisitions.

In conclusion, most M&As in Malaysia are focused on the banking sector as per the instructions from BNM in the interest of the country economy. M&As constitute a step that can stabilise the financial sector as well as enhance the efficiency and competitiveness of the Malaysian economyespecially during financial crisis.

Risk Management and Financial Performance

Risk management is critical in financial institutions because it must meet certain objectives to ensure that the business runs efficiently.Gallati (2003) defined risk as a situation involving exposure to adifficulty or circumstances with potential deviations from the outcome or objective to be achieved. Risk management is a process for identifying the loss of risk exposure faced by the organisation and selecting the most appropriate technique for dealing with such exposure.

A bank faces various risks,including market risk, credit risk, balance risk, technology and operational risk, liquidity risk, insolvency risk and foreign exchange risk. Thosesituation can lead to a decline in banksperformance and jeopardize their objective to enhance shareholder performance, thus drive the banksto engage in risk management (Tandelilin, Kaaro, Mahadwartha and Supriyatna; 2007).

Adeusi et al. (2013) note thatthe banks with efficient risk management may have some advantages in (i) they can be in line with the functioning of the rules, (ii) can enhance their reputation(iii) opportunity to attract customers broadly in building portfolios and (iv) can improve their efficiency and profitability.

Nor Asniza (2017) established that the liquidity risk in a bank's financial performance is extremely important as it demonstrates the ability of the asset to meet the need for funds. For instance, banks should be able to provide for and meet customer requirements. The shortfall in this requirement would adverse effects on banks as customers can switch to other banks to meet their needs. Therefore, banks mustwisely manage various risks to maintain quality and financial performance.

METHODOLOGY

This study utilizessecondary data collected from the Bursa Malaysia website as well asthe annual financial reports published by respective banks.Eight banking companies were selected as the sample,including Maybank, CIMB Bank, RHB Bank, Public Bank, AmBank, Hong Leong Bank, Affin Bank and Alliance Bank. Most merger activities for the banking industry in Malaysia have been implemented in mid-2000.Thus, we use indicators of one year prior to the merger and the following10 years after the merger for the comparisons of financial performancesbefore and after mergers and acquisitions.

The analysis tool used in this study is the financial ratio, which is widely used to assess the overall financial performance of banks. Four categories of financial ratios are utilised: the ratio of profitability (ROA and ROE), liquidity ratio (total loans to total deposits), market value ratio (earnings per share and dividend per share) and risk and solvency ratio (debt to equity, debt to total assets and equity multipliers).For the comparison of the bank's financial performance before and after mergers and acquisitions, the three approaches employed in this study include the correlations, paired t tests and financial ratio analysis.

RESULTS

Table below shows the data tested using the financial ratios of each company and then analysed using paired correlations and t-tests to test if the company's performance improves against the company after mergers and acquisitions.

Table 2.1 exhibits thatmost banks showed improved performance for ROA after mergers and acquisitions, except for Maybank which had a decrease of 0.16%. In Table 2.2, the bank's performance for ROA, on average,reveals a positive improvement after the merger and acquisition. Table 2.3 lists the comparison between banks and affirmsthat AmBank had the highest ROA,whereas Alliance Bank had the lowest ROA as a whole. A merger activity could also boost financial performance through ROA as indicated by the survey conducted by Nima (2015) because the banks' income increased**.**

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	0.0393	0.0476	0.0311	0.0282	0.0287	0.0295	0.0149	−0.0312
Post	0.0377	0.0816	0.0467	0.0315	0.0617	0.0308	0.0383	0.0287

Table 2.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. of Mean
0	8	0.0235	0.0240	0.0085
1	88	0.0446	0.0363	0.0039
All	96	0.0429	0.0358	0.0037

Table 2.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	0.0363	0.0269	0.0950	0.0149	0.0249	12
Alliance	0.0237	0.0223	0.0595	−0.0312	0.0295	12
Am Bank	0.0589	0.0321	0.1946	0.0043	0.0606	12
CIMB	0.0788	0.0738	0.1632	0.0223	0.0398	12
Hong Leong	0.0307	0.0267	0.0499	0.0243	0.0081	12
Maybank	0.0378	0.0368	0.0515	0.0324	0.0049	12
Public	0.0312	0.0293	0.0473	0.0256	0.0059	12
RHB	0.0454	0.0354	0.1675	0.0127	0.0413	12
All	0.0429	0.0336	0.1946	-0.0312	0.0358	96

Table 2.3

Table 3.1 illustrates that all banks showed a positive increase in ROE after mergers and acquisitions. This trend can be seen in the performance of the bank for a satisfactory ROE indicator. It can also be attributed to the entire bank in Fig 3.2 which depictsan increase. Table 3.3 indicates the comparison between banks,wherein CIMB had the highest ROE and Alliance had the lowest ROE compared withother banks. However, the positive results obtained could arise from the fact that most banks that were trying to adjust to the merger system after the merger activity are well-managed in terms of equity capital in generating their income (Khong et al., 2015).

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	0.4360	0.0582	0.0410	0.2635	0.0510	0.3156	0.0291	–0.0987
Post	0.4453	0.2122	0.0744	0.3829	0.0698	0.3606	0.0548	0.0326

Table 3.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. Of Mean
0	8	0.1370	0.1802	0.0637
1	88	0.2040	0.2043	0.0218
All	96	0.1984	0.2024	0.0207

Table 3.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	0.0526	0.0403	0.1306	0.0261	0.0346	12
Alliance	0.0217	0.0229	0.0791	—0.0987	0.0476	12
Am Bank	0.0682	0.0524	0.2166	0.0044	0.0644	12
CIMB	0.1993	0.1031	1.2110	0.0492	0.3229	12
Hong Leong	0.3568	0.3443	0.5148	0.2430	0.0674	12
Maybank	0.4445	0.4373	0.5955	0.3425	0.0648	12
Public	0.3729	0.4066	0.4995	0.2270	0.1016	12
RHB	0.0716	0.0613	0.2166	0.0252	0.0540	12
All	0.1985	0.1037	1.2110	−0.0987	0.2024	96

Table 3.3

The total loans to total deposits (L/D) ratio determines the ability of banks in generating their income by comparing the amount of bank loans offered as well as the amount of deposits received by banks. Public Bank, AmBank and Alliance Bank show an increase in L/D after M&As (Fig. 4.1). Following the mergers, banks began to lend due to theirstrongfinancial condition to give additionalloans to the public to generate interest income on the merged banks.

The rest showed a decline in L/D as other banks reduced lending to maintain cash and liquid assets after the merger. This trend is due to the avoidance of bank failure to provide cash forcustomers (Nor Asniza, 2017). The average bank L/D increases after the merger and takeover activities with a change of 11.23% (Table 4.2). Table 4.3 shows the ratio between banks. CIMB had the highest L/D, Alliance Bank had the lowest and an average L/D is found for each bank.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	0.8331	0.9297	0.8292	0.4996	0.8102	0.6849	0.7341	0.0000
Post	0.7902	0.8426	0.7911	0.7289	0.8108	0.5834	0.6825	0.7690

Table 4.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. of Mean
0	8	0.6664	0.2907	0.1028
1	88	0.7498	0.1088	0.0116
All	96	0.7429	0.1327	0.0134

Table 4.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	0.6868	0.6824	0.8202	0.5830	0.0646	12
Alliance	0.7050	0.7655	0.8395	0.0000	0.2306	12
Am Bank	0.8108	0.8510	0.8989	0.3772	0.1404	12
CIMB	0.8499	0.8462	0.9379	0.7559	0.0646	12
Hong Leong	0.5876	0.6087	0.6624	0.4972	0.0644	12
Maybank	0.7914	0.7940	0.8328	0.7291	0.0260	12
Public	0.7173	0.7165	0.8774	0.5893	0.0725	12
RHB	0.7943	0.7847	0.9070	0.6459	0.0759	12
All	0.7429	0.7712	0.9379	0.0000	0.1327	96

Table 4.3

Table 5.1 below shows the increase of EPS in each bank after merger and acquisition activities, except for Affin Bank. The downturn in EPS for Affin Bank was because of a volatility in the company's net revenues in 2004 and 2008, thereby affecting the EPS. Meanwhile, the increase in EPS after the merger activity occurred because banks were able to generate enough income to cover expenses. HighEPS is a sign of highrevenue and a strong and reliable financial performance. According to Table 5.2 the overall after merger activity shows that EPS increasedcompared with the value before merging. Table 5.3 provides a comparison between banks and exhibitsthat Maybank has the maximum and minimum EPS compared with the Affin Bank.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	35.80	30.50	-15.18	26.20	5.90	38.50	23.50	4.70
Post	51.75	54.87	29.55	47.29	12.78	42.89	8.61	12.32

Table 5.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. Of Mean
0	8	18.74	18.56	6.56
1	88	32.51	27.01	2.88
All	96	31.36	26.61	2.72

Table 5.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	9.85	19.36	32.70	-71.90	28.1591	12
Alliance	11.68	15.70	26.70	-17.30	12.4834	12
Am Bank	12.21	6.80	42.51	0.730	14.0676	12
CIMB	52.84	51.60	83.90	30.50	16.6808	12
Hong Leong	42.53	42.55	70.70	18.40	14.1596	12
Maybank	50.42	49.45	104.10	-5.70	27.2428	12
Public	45.53	41.80	87.20	16.50	24.8742	12
RHB	25.82	21.85	66.00	-15.18	22.6175	12
All	31.36	27.25	104.10	-71.90	26.6061	96

Table 5.3

Table 6.1 shows that all banks had a positive increase in DPS after M&As activities. This assertion is also proven in Table 6.2, with the average increase in the bank's revenue on their DPS. This outcome is because a good investment yield can increase DPS and indirectly increase the shareholders' wealth at the returns received by the company. Additionally, Table 6.3 presents a comparison between banks. Maybank has the highest DPS in parallel with the maximum EPS versus the other banks, and Alliance has the lowest DPS because, before the Alliance merger, it did not have a DPS value.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	6.50	7.20	2.00	4.00	5.00	9.70	0.70	0.00
Post	18.27	20.31	7.51	16.82	6.63	17.23	3.63	2.78

Table 6.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. of Mean
0	8	4.39	3.3736	1.1928
1	88	11.65	9.3103	0.9925
All	96	11.04	9.1811	0.9370

Table 6.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	3.39	2.50	9.00	0.36	3.1561	12
Alliance	2.55	1.44	6.92	0.00	2.7493	12
Am Bank	6.50	4.70	18.00	2.88	4.7630	12
CIMB	19.22	19.90	29.20	7.20	6.3641	12
Hong Leong	16.60	17.45	28.30	7.90	5.4662	12
Maybank	17.29	13.50	43.20	5.00	12.661	12
Public	15.75	16.58	29.60	4.00	8.9350	12
RHB	7.05	6.75	17.45	2.00	4.6239	12
All	11.04	7.90	43.20	0.00	9.1811	96

Table 6.3

Table 7.1 indicatesan increase in D/E after the merger activities for Maybank, CIMB, RHB Bank, Public Bank and Alliance Bank. AmBank, Hong Leong and Affin Bank show adecline in D/E,suggesting that their financial performance is better than their equity financing. However, a high D/E implies that companies are aggressive in debt-financing growth, as proven Khong et al. (2015). Table 7.2 also shows that the average bank overall exhibited an increase of D/E of 15.66% after the merger activity. Finally, Table 7.3 presents a comparison between banks and reveals that CIMB has the maximum D/E and Alliance Bank has the minimum D/E.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	7.2801	12.6124	11.8427	3.9212	17.8408	5.8238	13.1268	0.0000
Post	7.4590	23.1091	11.9824	7.1023	11.8447	5.3434	7.7539	11.1041

Table 7.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. Of Mean
0	8	9.0560	5.8081	2.0535
1	88	10.712	12.5788	1.3409
All	96	10.574	12.1491	1.2400

Table 7.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	8.2017	7.7673	13.1268	5.3536	2.0946	12
Alliance	10.179	10.0400	17.0901	0.0000	4.3090	12
Am Bank	12.344	10.7096	20.5303	8.8314	3.8572	12
CIMB	22.234	13.5143	122.9661	9.7352	31.7699	12
Hong Le	5.3834	5.7941	6.2234	4.0211	0.7966	12
Maybank	7.4441	7.4440	8.6334	5.9972	0.7692	12
Public	6.8372	7.1707	10.3391	3.6307	2.8518	12
RHB	11.971	11.7176	14.1691	8.9257	1.6477	12
All	10.574	9.1579	122.9661	0.0000	12.1491	96

Table 7.3

Table 8.1 shows that Public Bank, AmBank andAlliance Bank showed an increase in D/A after the merger and acquisition activities. Ahigh D/A indicates that the company uses debt for asset financing. However, Table 8.2 suggests that, on average, all banks still have good D/A because the ratio is not greater than 1 after the bank conducts merger activities although an increase in D/A by 11.43% on average was noted. The bank still controls every asset financing by using debt and equity. In Table 8.3, a comparison between banks is shown. Alliance Bank has the highest and lowest D/A from the listed banks. All banks also had different valueson their respective D/A companies.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	0.6563	0.6086	0.6266	0.4198	0.6423	0.5443	0.5880	0.0000
Post	0.6303	0.5974	0.5884	0.5518	0.6433	0.4455	0.5335	0.6174

Table 8.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. of Mean
0	8	0.5108	0.2197	0.0777
1	88	0.5759	0.0747	0.0080
All	96	0.5705	0.0948	0.0097

Table 8.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	0.5380	0.5451	0.6138	0.4693	0.0451	12
Alliance	0.5660	0.6118	0.7243	0.0000	0.1874	12
Am Bank	0.6432	0.6417	0.6764	0.6056	0.0199	12
CIMB	0.5983	0.6041	0.6492	0.5245	0.0334	12
Hong Leong	0.4537	0.4416	0.5443	0.4227	0.0342	12
Maybank	0.6325	0.6344	0.6690	0.5989	0.0235	12
Public	0.5408	0.5621	0.6709	0.4198	0.0774	12
RHB	0.5916	0.5965	0.6681	0.5168	0.0546	12
All	0.5705	0.5993	0.7243	0.0000	0.0948	96

Table 8.3

According to Table 9.1, AmBank, Affin Bank and Alliance Bank had a decline in EM after the merger and acquisition activities. Generally, lowEMs are goodbecause the company has low leverage financing, indicating that the use of debt for financing against assets is low. At 9.2 on average, all banks have an increase in EM,thereby showing that banks are riskywhen their EM is high because they rely on debt to finance assets and risks to companies and shareholders. Table 9.3 reveals that Public Bank has themaximum EM, Alliance Bank has theminimum EM, and that each bank has a different EM average.

	Maybank	**CIMB**	**RHB**	**Public**	**AmBank**	**Hong Leong**	**Affin**	**Alliance**
Pre	11.0921	1.2237	1.3200	9.3409	1.7770	10.7001	1.9494	3.1633
Post	11.8198	2.5010	1.7351	12.5387	1.1695	12.0537	1.4410	1.1852

Table 9.1

PRE_POST	Count	Mean	Std. Dev.	Std. Err. Of Mean
0	8	5.0708	4.4606	1.5771
1	88	5.5555	5.5161	0.5880
All	96	5.5151	5.4175	0.5529

Table 9.2

NAME	Mean	Median	Max	Min.	Std. Dev.	Obs.
Affin	1.4834	1.4651	1.9494	1.3227	0.1659	12
Alliance	1.3500	1.1496	3.1633	1.0000	0.5980	12
Am Bank	1.2201	1.1195	1.7770	1.0323	0.2423	12
CIMB	2.3945	1.40814	12.943	1.2237	3.3313	12
Hong Leong	11.941	12.9120	14.723	8.5514	2.0925	12
Maybank	11.7592	11.7111	13.031	9.8347	1.0272	12
Public	12.2723	11.8809	17.749	7.6671	3.9496	12
RHB	1.7005	1.54210	2.4210	1.2348	0.4837	12
All	5.5151	1.5724	17.749	1.0000	5.4175	96

Table 9.3

Through financial ratio analysis, the Hong Leong bank is proven to have the best financial performance after mergers and acquisitions. This finding can be seen in terms of increasing profits in companies on ROA and ROE with rising net income holdings, where the company successfully manage those activities well. The increase in market value and good risk management can benefit companies and shareholders. The finding of this study was supported by Nor Asniza (2017) who confirmedthat the Hong Leong Bank has good liquidity, operations and market risk management. The Hong Leong Bank is very committed and strives to expand the company's profits by becoming competitive after the acquisition of the company (The Star Online, 2011).

The CIMB bank also performed impressively after M&As activities. The CIMB has increased corporate profitability and market value after merger and acquisition activities. The increase in leverage is high, and the increase in market value is favourable for comparison before and after mergers and acquisitions.

	ROA	ROE	L_D	EPS	DPS	D_E	D_A	EM
Mean	0.0429	0.1985	0.7429	31.36	11.04	10.5743	0.5705	5.5151
Median	0.0336	0.1037	0.7712	27.25	7.90	9.1579	0.5993	1.5724
Maximum	0.1946	1.2110	0.9379	104.10	43.20	122.9661	0.7243	17.7494
Minimum	-0.0312	-0.0987	0.0000	-71.90	0.00	0.0000	0.0000	1.0000
Std. Dev.	0.0358	0.2024	0.1327	26.61	9.18	12.1491	0.0948	5.4175
Probability	0.0000	0.0000	0.0000	0.01	0.00	0.0000	0.0000	0.0012
Observations	96	96	96	96	96	96	96	96

Table 10: Overall 8 Banks

Table 10 shows the overall results for the8 banks surveyed.The maximum percentage of ROA obtained is 0.1946 with a minimum percentage of 0.0312 and an average of 0.0429. For ROE, the maximum percentage is 1.2210 and the minimum reaches a negative percentage of - 0.0987. Subsequently, the L/D ratio shows that the average bank obtained 0.7429 with a maximum value of 0.9379. However, the EPS shows that the maximum value obtained is 104.10 with an average of 31.36. In addition, the DPS found 43.20 with a maximum of 11.04. Moreover, the D/E variable shows the maximum value of 122.97 with an average of 10.574. Furthermore, the average D/A shows approximately0.5705, and the maximum percentage is 0.7243. Finally, at the EM variable with a minimum value of 1 and a positive maximum of 17.7494 and the average turnover is 5.5151.

		Pre	Post	SE	Mean	t-test	Sig.
Pair 1	ROA_Pre - ROA_Post	0.0235	0.0458	0.0081	-0.0223	-2.758	0.028
Pair 2	ROE_Pre - ROE_Post	0.1386	0.2087	0.0226	-0.0701	-3.096	0.017
Pair 3	LD_Pre - LD_Post	0.6664	0.7467	0.1007	-0.0803	-0.798	0.451
Pair 4	EPS_Pre - EPS_Post	18.74	33.60	6.0751	-14.8575	-2.446	0.044
Pair 5	DPS_Pre - DPS_Post	4.39	12.15	1.8123	-7.7613	-4.283	0.004
Pair 6	DE_Pre - DE_Post	9.0560	10.7994	2.3884	-1.7434	-0.730	0.489
Pair 7	DA_Pre - DA_Post	0.5107	0.5746	0.0815	-0.0638	-0.783	0.459
Pair 8	EM_Pre - EM_Post	5.0708	5.6376	0.5950	-0.5668	-0.953	0.372

Table 11: Paired pair tests

Table 11confirms that 4 out of the 8 variables have significant differences before and after the merger and acquisition activities. All of them experienced an increase in their financial performance before and after the merger as can be seen in the table. The large amount of change is on the EPSbecause EPS plays an important role in raising the company's profits, company income increases when they merge according to their management and handling efficiency. Additionally, the ROE and ROE leverage ratios are significant after the merger and acquisition tests with values of $p = 0.028$ and $p = 0.017$ at the importance level of $p < 0.05$. The findings of this study are consistent those of Ali (2015), possibly because banks can properly manage existing assets and equity to generate bank revenues.

In addition, the L/D liquidity ratio had no significant occurrenceafter the merger and acquisition of the t test with a value of $p = 0.451$ above the level of $p > 0.10$. Regarding the

EPS and DPS, market value variables showed significant t test with p = 0.044 and p = 0.004 at importance level less than p <0.05. In addition, the risk variables and solvency of D/E, D/A and EM show no importance in t test with p values of each p = 0.489, p = 0.459 and p = 0.372 at the importance level of p> 0.10. Mohammad and Zahid (2014) affirmed no significance for the leverage capital of D/E with significance levels greater than p> 0.10. In addition, the company has separate planning for managing its asset financing in terms of debt or equity use as it is insignificant for subsequent mergers and acquisitions.

CONCLUSION

Thisstudy examine performance before and after the M&As of local banks in Malaysia using profitability ratio, liquidity, market value, risk and solvency.

Good profit ratios in ROA and ROE have provided a clear picture of the effectiveness of management in terms of assets and equity capital in generating their bank revenues that support the discovery of previous researchers like Nima (2015) and Yusuf Ali (2015). An increase in L/D for a liquidity ratio indicates that the bank generates interest income and less liquidity of assets by offering more loans. Furthermore, a satisfactory improvement is found through the income earned in a value ratio showing that the financial performance is in good condition after mergers and acquisitions. Conversely, risk ratios and solvency have shown an increase, indicating that companies are heavily using debt to finance their assets.

The results of the survey confirm a change in activity before and after the merger and acquisition shown through the paired t test. A significant change occurs in the company's profitability. The results show a positive and significant improvement after M&As. This outcome is similar to that of Mohammad andZahid (2014).

However, liquidity hada positive and insignificant relationship with the company after the merger and acquisition activity because the increase in the level of liquidity after the merger was due to a decrease in the ratio of the loans to the deposit (Khong et al. 2015). By contrast, market value had positive and significant results, an indication of the bank’s profitability and the increased market value of the company. In addition, risk analysis and solvency results indicate a positive but non-significant relationship with the company during mergers and acquisitions.CIMB bank seems to show an impressive financial performance after the company's merger and acquisition activities were implemented compared withother banks.

REFERENCE

Aina. A.Z 2018. Financial performance for mergers and acquisitions of local banks in Malaysia. *Scientific paper of Economy and Management*.

Farhan. A, Aneeta. M & Shafique. A 2018. Merger and acquisition strategy growth,Improve Performance and survival in the financial Sector. *Journal Perspective Of Financing And Regional Development.* Volume 5, Issue 4.

Daniya. A. A, Onotu. S, & Abdulrahman. Y (2016). Impact of Merger and Acquisitions on the Financial Performance Of Deposit Money Banks in Nigeria. *Journal of Business and Management Review.* Volume 6, Issue 4.

Adeusi, et. al. 2013. Risk Management and Financial Performance Of Banks In Nigeria. *Journal of Business and Management (IOSR-JBM)*. Volume 14, Issue 6 pp 52-56.

Altunbas, Y, & Marques, D. 2008. Mergers and Acquisitions and Bank Performance in Europe: The Role of Strategic Similarities. *Journal of Economics & Business*, 60, 204–222.

Ang. S. J., Iddrisu Mohammed Awal, Lee. T. C., Loo. X. H. & Ong. S. H. 2017. Malaysian Banks Efficiency After Merging: Evidence From Data Envelopment Analysis (DEA) And Financial Ratios Analysis.

Burhan Ali Shah & Niaz Khan. 2017. Impacts of Mergers and Acquisitions on Acquirer Banks' Performance. *Australasian Accounting, Business and Finance Journal*. Vol.11 (3).

Bursa Malaysia Market. 2017. http://www.bursamalaysia.com/market/securities/equities/price#/?filter=BS01&alphabet=A&page=1.html [28 September 2017]

Fatima, T., Shehzad, A. 2014. An Analysis of Impact of Merger and Acquisition of Financial Performance of Banks: A case of Pakistan. *Journal of Poverty, Investment and Development.* Vol.5 issue no. 29 pp29-37.

FauziasMat Nor, Rasidah Mohd Said & Mohamed Hisham. 2006. Financial Performance and Efficiency Changes of Malaysian Banking Institutions in Mergers and Acquisitions.

Gallati R (2003) Risk management and capital adequacy. McGraw Hill Professional.

Harelimana JB. 2017. The Role of Risk Management on Financial Performance of Banking Institutions in Rwanda. *Business and Economics Journal.*

Kalimeris, D. 2010. An Event Analysis of Asymmetric Information on Merger and Acquisition Announcement in the SE European Region. *International Research Journal of Finance and Economics, Issue (39), ISSN* 1450-2887.

Khong. Y. L. et. al. 2015. Financial Performance of Malaysia Local Banks: During Periods of Pre-Merger and Post-Merger. *Journal of Economics, Business and Management*, Vol. 3, No. 9

Madiha A. Majid.1995. Merger and Acquisition: Impact on Shareholder Returns.

Mohd Zaini Abd Karim, Muhammad Ridhuan Bos Abdullah & Gee. C. S. 2009. Forced Merger And Efficiency In Malaysian Banking.

Muhammad Ahmed & Zahid Ahmed. 2014. Mergers and Acquisitions: Effect on Financial Performance of Banking Institutions of Pakistan. *Journal of Basic and Applied Scientific Research*. 4(4)249-259.

Nima. H. F. 2015. Effect Of Mergers And Acquisitions On The Financial Performance Of Commercial Banks In Kenya.

Nor Asniza Asmi. 2017. Risk Management And Performances Hong Leong Bank, Malaysia. University Utara Malaysia.

P. A. Gaughan. 2002. Acquisitions and Corporate Restructurings, 3th ed., New York: John Wiley and Son.

Qamar Abbas et.al. 2014. Financial performance of banks in Pakistan after Merger and Acquisition. *Journal of Global Entrepreneurship Research* 2014, 4:13

Rashed Al Karim & Tamina Alam. 2013. An Evaluation of Financial Performance of Private Commercial Banks in Bangladesh: Ratio Analysis. *Journal of Business Studies Quarterly*, Vol.5.

Rubi Ahmad, 2007. "A note on the 1999-2002 Malaysian banking consolidation,"IBBM. *Banker's Journal Malaysia,* vol. 131, pp. 4-8.

Rasidah Mohd Said, Fauzias Mat Nor, Low. S. W. & Aisyah Abdul Rahman. 2008. The Efficiency Effects of Mergers and Acquisitions in Malaysian Banking Institutions. *Asian Journal of Business and Accounting, 1(1),* 2008, 47-66

Stephen. N. M. 2013. The Effect Of Mergers And Acquisitions On The Financial Performance of Petroleum Firms In Kenya.

Tandelilin, E., Kaaro, H., & Mahadwartha, P.A., Supriyatna. 2007. Corporate Governance, Risk Management, and Bank Performance: Does Type of Ownership Matter? EADN Working Paper No. 34.

The Star Online. 2011. Hong Leong Bank on a growth agenda. https://www.thestar.com.my/business/business-news/2011/09/17/hong-leong-bank-on-a-growth-agenda/ [7 Januari 2018]

Weignberg and Blank. 1979. Takeovers and Mergers, 4th ed., London: Sweet &Maxwell.

Yusuf Ali Khalaf Al-Hroot. 2015. Pre and Post- Merger Impact On Financial Performance: A Case Study Of Jordan Ahli Bank. *European Journal of Business and Management*. Vol. 7. No. 36.

Zahid, N, & Shah, AM. 2011. Mergers and Acquisitions in International Business. *European Scientific Journal,* 43-56.